



28th ANNUAL CONFERENCE
of the International Organization of Securities Commissions
14~17 October 2003, Seoul Korea



Plenary 1

Increasing Disclosure – A Key to Improving
Investor Confidence

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16 October 2003

IOSCO: Conference & Public panels, 16-17 October 2003, Seoul
“New Challenges for Securities Markets and Regulators”

Panel 1: “Increasing Disclosure –A Key to Improving Investor Confidence”

CESR: its role and activities

Mr Kaarlo Jännäri,

- Vice- Chairman of CESR

- Director General of the Financial Supervision Authority of Finland

I am very pleased to be able to speak to you today in my capacity as Vice-Chairman of CESR, the Committee of European Securities Regulators.

(slide 1)

In my role today, I have set myself 2 aims in my introduction for this panel:

1. to tell you about CESR and explain the role of CESR within the so called ‘Lamfalussy approach’.
2. to say a little more about the current activities of CESR. As you will see “disclosure” is a central theme in the work of CESR.

1. CESR

Let me start with the origin of CESR and its role in the Lamfalussy approach.

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CESR emerged from the former FESCO, the Forum of European Securities Commissions. FESCO was set up by Charter in December 1997 by 17 European securities regulators, namely the 15 EU countries plus Norway and Iceland. This “club” of regulators has been transformed into the Committee of European Securities Regulators, also known as CESR, in 2001. In 2004, the ten Accession Countries to the European will become official members of CESR from May onwards.

Maybe not all of you are familiar with the main recommendations of the Committee of Wise Men, chaired by Alexandre Lamfalussy in 2000/2001, which, among other recommended changes, resulted in the establishment of CESR.

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The practical implications of the Lamfalussy plan are set out in a four level regulatory approach intended to speed up the regulatory process and make it more flexible and efficient. The four level approach is as follows:

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In Level 1, broad framework principles of securities legislation are decided upon.

Then, in Level 2, two new committees assist and advise the European Commission in determining how to implement the details of the Level 1 framework. CESR is now one of these committees.

Level 3 involves enhanced cooperation and networking among EU securities regulators to ensure consistent and equivalent transposition of Level 1 & 2 legislation.

And, finally, Level 4 addresses strengthened enforcement.

How does CESR fit into this 4 Level Approach?

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CESR's tasks are:

- to advise the European Commission on securities policy issues either at the EC's request, or on its own initiative;
- to respond within such time limits to the mandates given by the European Commission in respect of the preparation of implementing measures (this new CESR task was not previously a FESCO responsibility);
- to foster and review implementation and application of Community legislation;
- to develop network mechanisms to enhance day-to-day consistent supervision and enforcement of the Single Market for financial services;
- to monitor financial markets and any possible impact on the regulation of the Single Market for financial services.

In its role the independence of CESR is important. But independence is only workable if we operate in a transparent and accountable manner, thereby establishing strong institutional links with the European Parliament, the Commission, and the Council.

It also involves consultation carried out in an open and consistent manner.

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In this regard, CESR consults in three ways, while advising the EU Commission on preparing the implementation measures of EU directives:

1. First, CESR consults with all interested parties at a sufficiently early stage to enable the Committee to take responses into account, for example by consultative papers, public hearings and roundtables. If the response to the first consultation reveals significant problems, or when revised proposals are radically different from the original proposals on which the first consultation was made, CESR consults for a second time.
2. Second, where appropriate CESR establishes advisory, consultative groups of experts, and
3. Thirdly, a market participants consultative panel was established in 2002 to assist CESR in the performance of its functions and in particular to ensure that the consultation process functions effectively.

So far the institutional aspect of CESR. Now I come to my second aim of my introduction: the current activities of CESR.

2. What's on CESR's agenda?

Since CESR inception in 2001, considerable progress has been made in testing the four level approach. In addition to having made headway at Level 2 in relation to implementing measures for the Market Abuse and Prospectus directives, CESR has carried out considerable work on investor protection rules, the definition of a professional investor, standards for alternative trading systems and standards for regulated markets. CESR has also issued to the Commission a paper on the question of transparency.

In more detail, the following activities were, are and will be on the menu of CESR .

As I have said before, ‘disclosure’ to the investor is a central theme in these activities.

(Considering the available time I will only refer to the main activities).

(sheet 7):

- Market Abuse

On 31 December 2002, CESR submitted its advice on the first wave of mandates received from the Commission requesting implementing measures with respect to the market abuse directive.

A milestone in the Lamfalussy-process will soon be reached when the very first level 2 implementing measure on market abuse will be adopted by the European Securities Committee before the end of this month.

In September of this year, advice on a second set of implementing measures has been sent by CESR to the Commission. This second set refers – among others - to guidelines for accepted market practices, inside information on commodity derivative markets, the maintenance of insider lists by issuers and reporting of suspicious trades.

- Prospectuses

At the end of July of this year CESR provided advice to the Commission on the first wave of mandates on the prospectus directive, which covers the minimum information that is required in a prospectus based on the basic structure and typical main features of different types of securities. These disclosure requirements include key financial information, operating results, specific risk factors, a statement on how the company complies with its national corporate governance code, remuneration of key management, as well as potential conflicts of interests.

Earlier this month CESR published its advice on the second wave of mandates on the prospectus directive. Areas covered by this advice are: minimum information, format of a

prospectus and annual information. This advice includes a roadmap to help firms identify what information is required for the offer or admission to trading of different types of securities in the EU. The aim of the roadmap is to clarify what schedules and building blocks should be used for each type of security. Finally, advice on a third wave of mandates on the prospectus directive is being prepared for December 2003.

- Investment Services Directive

(sheet 8)

The Commission's proposal for the new investment services directive, published in November 2002, includes up to 20 possible mandates for CESR in three areas: investment firms; markets and enforcement. Although the first reading of the proposal in Parliament is nearing the end, CESR does not exactly know at this stage what mandates can be expected from the Commission. CESR anticipates the mandates will be received in the next month. In the mean time, CESR has taken the preparatory measures to be ready to work on the mandates as soon as they will arrive.

- Securities Clearing and Settlement Systems

(sheet 9)

A joint working group established by CESR and the European System of Central Banks is working on developing standards for securities clearing and settlement systems in the EU, based upon the CPSS/IOSCO recommendations for securities settlement systems, published in November 2001.

- Review Panel

It is of vital importance not to limit our focus to regulatory initiatives alone, but to broaden our outlook to the effective functioning of integrated markets. Does all of the regulatory work, Directives, level 2 measures, standards and so on, have the effects and impact on the behaviour of markets and institutions as we have anticipated? Increasingly, we should turn our attention to implementation and enforcement of what we have agreed upon.

In this respect I would like to mention our work in the Review Panel (chaired by me as vice-chair of CESR). The aim of this Panel is to assist CESR in its task of ensuring consistent and timely implementation of Community legislation. It is our firm belief that an essential factor for CESR to be successful in the long run, is to show that we are not only able to issue guidelines, recommendations or standards, but to implement and to enforce these in a consistent and timely way.

- CESR-fin

Nevertheless, recent developments on financial markets have shown that corporate governance, audits and accounting are essential in order to maintain public trust in public company behaviour. For this reason CESR has taken this area of work particularly seriously and foresaw at the outset of CESR, the need to establish a permanent working group, CESR-Fin, to focus on financial reporting issues. In this month alone, they have published two important consultation papers, the first focusing the attention of listed companies on the need to consider how they will manage the transition to international financial reporting standards (IFRS), including how they will communicate effectively the impact of this new reporting standard to their shareholders. The second consultation paper (Standard No. 2), proposes new measures to ensure greater co-ordination of enforcement activities of financial information in Europe by supervisors. These issues will continue to be on our regulatory agenda in the future.

- Corporate governance-

I have already mentioned the issue of corporate governance, which brings me to my last point. Although not an issue as such in the current working agenda of CESR, corporate governance is a crucial ingredient for determining the overall attractiveness and prosperity of capital markets. With full disclosure of corporate governance practices, markets will work even more efficiently. The challenge we are all facing is to find the right balance between regulatory and market-based incentives and penalties.

Thank you very much.



Committee of European Securities Regulators

„Current activities of CESR“

IOSCO, Seoul, 16 October 2003

Kaarlo Jännäri



Overview

- What is CESR's role?
- What is on CESR's agenda?



What is CESR's role?

- Role and Objectives
 - Improving co-ordination among securities regulators
 - Advising the EU Commission
 - Improving implementation of EU legislation



What is on CESR's agenda?

- Advising the EU-Commission:
 - Market Abuse Directive
 - First mandate (31 December 2002)
 - Second mandate (31 August 2003)
 - Prospectus Directive
 - First provisional mandate (31 July 2003)
 - Second provisional mandate (30 Sept. 2003)
 - Third provisional mandate (31 Dec. 2003)



What is on CESR's agenda?

- Advising the EU Commission (cont.)
 - Investment Services Directive
 - Markets
 - Intermediaries
 - Co-operation and Enforcement



What is on CESR's agenda?

- Co-ordination/implementation:
 - CESR-Fin
 - Clearing and Settlement
 - CESR-Pol
 - Review Panel



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More information about CESR and its activities ?

www.europefesco.org